
Government and Public Sector
***Melton Borough
Council***

Annual Audit Letter

2011/12 Audit

October 2012

Introduction

The purpose of this letter

This letter is a public document which summarises the results of our 2011/12 audit for members of the Authority and other stakeholders.

We have already reported the detailed findings from our audit work to those charged with governance in the following reports:

- Audit report for the 2011/12 Statement of Accounts, incorporating the value for money conclusion.
- Report to those charged with Governance (ISA (UK&I) 260).

The matters reported here are the most significant for the Authority.

Scope of work

The Authority is responsible for preparing and publishing its Statement of Accounts and the Annual Governance Statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Our 2011/12 audit work has been undertaken in accordance with the Audit Plan that we presented to the Authority in February 2012 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

We met our responsibilities as follows:

Audit responsibility	Result
Perform an audit of the accounts in accordance with the Auditing Practice Board's International Standards on Auditing (ISAs (UK&I)).	We reported our findings to the Authority's Governance Committee on 20 th September 2012 in our 2011/12 Report to those charged with governance (ISA (UK&I) 260), and subsequent to this, we issued an unqualified audit opinion.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We issued a short form assurance statement to the NAO on 28 September 2012 in respect of the Authority's Whole of Government Accounts consolidation pack.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 28 September 2012 we issued an unqualified value for money conclusion.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	There were no issues to report in this regard.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	There were no issues to report in this regard.

Audit responsibility	Result
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	There were no issues to report in this regard.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	We issued our completion certificate on 28 September 2012.

Audit Findings

Accounts

We audited the Authority's Statement of Accounts in line with approved Auditing Standards and issued an unqualified audit report on 28 September 2012. Appendix 1 contains a review of the year on year movements on the Comprehensive Income and Expenditure account and the Balance Sheet.

We identified the following key issues from our audit of accounts:

Accounts preparation

The Authority prepared its accounts on a timely basis with a first draft of the accounts available at the start of the audit. Working papers were available for audit on time and key staff were available so that we could make a prompt and efficient start to our work on the first day we arrived. Working papers were of a good standard.

Our audit identified no significant issues with respect to the quality of the draft accounts presented for audit, though some minor adjustments to the accounts were requested and agreed. The Authority performed well in the preparation of its accounts as evidenced by the lower number of disclosure adjustments compared to other authorities.

Our audit work identified a small number of minor control weaknesses which we reported separately to management, none of which were of significance.

Misstatements and significant audit adjustments

Uncorrected misstatements

We are required to report to all unadjusted misstatements which we identified during the course of our audit, other than those of a trivial nature. We are pleased to report that there were no misstatements identified during the course of our audit which remained unadjusted.

Adjusted misstatements

As a result of our work we identified three significant adjustments as follows:

- **Sale of Nottingham Road Land:** this had initially been treated as an outright sale. Upon review of legal documentation we identified this was a sale of the leasehold for 125 years with a large up front premium followed by annual rental income. The Authority maintains ownership of the freehold for the land.

As a result of this, accounting standards required the Authority to recognise the present value of the future rental income as receivable on its balance sheet with annual entries to recognise payments made against the receivable and the interest cost of providing this 'finance' as part of the contract.

The net impact of this adjustment was to increase the gain on disposal for this sale by £470,000 and reduce the Revaluation Reserve by the same amount. There was also a transfer of £600,000 from Property, Plant and Equipment to Accounts Receivable.

- **Parkside premises license to Leicestershire County Council:** in return for capital contributions received from Leicestershire County Council (LCC) to fund the Authority's new offices, LCC have been granted office space for a rent free period of 40 years.

We agreed with the Authority the correct accounting treatment in order to recognise this arrangement, which involves deferring the contribution at the inception of the agreement and then releasing the income during the life of the license/agreement. However as part of our final audit testing we identified that these entries had not been reflected within the accounts.

The impact of this adjustment was to reduce the capital adjustment account by £1.575 million and create a long term liability for the same value. This liability will then reduce each year to reflect LCC's usage of the Council offices.

- **Collection Fund Presentation:** 'Income collectable from Business rate payers' and 'Payment to the National pool' were both understated in the Collection Fund by £1,418,000 due to one of the accounting entries being deducted, rather than added to, the total balance. The adjustment had no net impact on overall results for the Collection Fund.

The net impact of the adjustments made to the accounts did not impact upon the General Fund balance.

Economy, efficiency and effectiveness

Our responsibilities include the need to carry out sufficient and relevant work in order to conclude on whether the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in the use of resources.

Guidance from the Audit Commission specifies the criteria for our conclusion:

- the organisation has proper arrangements in place for securing financial resilience; and
- the organisation has proper arrangements for challenging how it secures economy, efficiency and effectiveness.

We determined a local programme of audit work based on our audit risk assessment, informed by these criteria and our statutory responsibilities. Taking into account all work undertaken in 2011/12 on the Authority's use of resources, we were satisfied that, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Whole of Government Accounts

We undertook our work on the Whole of Government Accounts consolidation pack as prescribed by the Audit Commission. The audited pack was submitted on 28 September 2012. We found no areas of concern to report as part of this work.

Annual Governance Statement

Local authorities are required to produce an Annual Governance Statement (AGS) that is consistent with guidance issued by CIPFA/SOLACE. The AGS accompanies the Statement of Accounts.

We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context.

Appendix 1: Review of 2011/12 Accounts

Comprehensive Income and Expenditure

A summarised version of the Authority's Comprehensive Income and Expenditure statement for 2011/12 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2011/12 '£000	2010/11 '£000	Movement '£000	Note Reference
Net Cost of Services excluding non distributed costs and exceptional items	6,904	6,962	(58)	1
Non Distributed Costs	(71)	110	(181)	
Exceptional Items	30,430	23,832	6,598	2
Net costs of services	37,263	30,904	6,359	
Other Operating (Income) / Expenditure	(13,017)	667	(13,684)	3
Financing, Investment, taxation and grant income	(8,389)	(11,811)	3,422	4
(Surplus)/Deficit on Provision of Services	15,857	19,760	(3,903)	
Other comprehensive (Income) / Expenditure	5,948	(4,858)	10,806	5
Total comprehensive income and expenditure for the year	21,805	14,902	6,903	

Note 1: The movement of £58,000 from 2010/11 to 2011/12 represents a decrease in the Authority's net cost of services when removing one off items. To gain assurance over this balance we performed substantive testing on income and expenditure and specifically focused on year end transactions to ensure they were classified in the correct financial year. No issues were identified through our work in this area.

Note 2: The increase in exceptional items expenditure relates primarily to the Housing Revenue Account self financing arrangements introduced in 2011/12, whereby the Authority was required to pay a settlement of £27.6 million to the Department of Work and Pensions (DWP). We tested the accounting for this transaction in full and agreed relevant values to DWP confirmations, no issues were identified.

There was also an impairment of £3 million to property plant and equipment, the majority of which related to the downward revaluation of the new Council offices following completion of construction works. To gain assurance over valuations we utilised our internal valuations experts to assess the valuations methodology used by the Authority's valuer and reconciled the valuation reports to the financial statements. No issues were identified through our work in this area.

Note 3: The significant increase in other operating income relates to the gain on the sale of the land on Nottingham Road. We reviewed relevant legal documentation and reperformed the accounting entries for this transaction. Following this we identified that this transaction was in substance a lease arrangement rather than an outright sale. As such we proposed a number of adjustments to the financial statements and these were amended by the Authority (further detail is set out within the audit findings section above).

Note 4: The movement of £3.4 million is due to a significant reduction in the level of insurance proceeds received in 2011/12 in relation to the new Council Offices. We substantively tested Capital Grant income to ensure that it

had been recognised accurately, completely and within the correct financial period. No issues were identified through our work in this area.

Note 5: A movement of £10.8 million on ‘Other Comprehensive Income’ was the result of changes to the Authority’s pension fund liability. In 2010/11 the liability decreased due to a change in indexing public sector pensions from the Retail Price Index (RPI) to the Consumer Price Index (CPI). The current year increase in the liability reflects the actuarial assessment of the Authority’s current position. We reviewed the assumptions used by the Authority’s actuary and tested the base data sent from Leicestershire County Council (the Pension Fund Administrator) to the Actuary to ensure that it was consistent with the Authority’s information.

Balance Sheet

A summarised version of the Authority’s Balance Sheet for 2011/12 is shown below along with commentary on the significant year on year movements and how we obtained assurance over those areas.

	2011/12 '£000	2010/11 '£000	Movement '£000	Note Reference
Long Term Assets & Assets held for sale	82,466	87,586	(5,120)	1
Short Term Debtors	2,963	3,373	(410)	
Other current assets	14,505	3,049	11,456	2
Total Assets	99,934	94,008	5,926	
Current Liabilities	(2,637)	(3,401)	(764)	
Long term Liabilities	(46,276)	(16,206)	30,070	3
Net Assets	51,021	74,401	(23,380)	
Unusable Reserves	36,776	69,045	(32,269)	4
Usable Reserves	14,245	5,356	8,889	4
Total Reserves	51,021	74,401	(23,380)	

Note 1: The decrease in long term assets and assets held for sale was a result of property plant and equipment impairments, as discussed in Note 2 to the Comprehensive Income and Expenditure Account above, along with the sale of the ‘asset held for sale’ which related to the Nottingham Road land.

Note 2: A significant increase in other current assets of £11.5 million was a result of the sale of the Nottingham Road land (see Note 3 to the Comprehensive Income and Expenditure Account above) towards the year end, resulting in a large cash balance, primarily held in short term investments. We obtained direct confirmation from third parties to confirm the values of all investments and bank balances at 31st March 2012. No issues were noted.

Note 3: The Housing Revenue Account self financing settlement referred to in Note 2 above, was financed through long term borrowing from the Public Works Loan Board (PWLB). This, along with the increase in pension liability, as discussed in Note 5 to the Comprehensive Income and Expenditure Account above, resulted in an overall increase in long term liabilities of £30 million from 2010/11 to 2011/12.

Note 4: An increase in usable reserves related primarily to an increase in the capital receipts reserve of £10 million following the sale of land at Nottingham Road. The £32 million increase in unusable reserves is driven by the increase in pension liability and PWLB loan as referred to above. We reviewed the accounting movements in reserves against accounting guidance and reconciled movements into and out of reserves to other areas of the accounts. No issues were identified through our work.

Code of Audit Practice and Statement of Responsibilities of Auditors and of Audited Bodies

In March 2010 the Audit Commission issued a revised version of the 'Statement of Responsibilities of Auditors and of Audited Bodies'. It is available from the Chief Executive of each audited body. The purpose of the Statement is to assist auditors and audited bodies by explaining where the responsibilities of auditors begin and end and what is to be expected of the audited body in certain areas. Our reports and letters are prepared in the context of this Statement. Reports and letters prepared by appointed auditors and addressed to members or officers are prepared for the sole use of the audited body and no responsibility is taken by auditors to any member or officer in their individual capacity or to any third party.

Other Matters

In the event that, pursuant to a request which you have received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), you are required to disclose any information contained in this report, we ask that you notify us promptly and consult with us prior to disclosing such information. You agree to pay due regard to any representations which we may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such information. If, following consultation with us, you disclose any such information, please ensure that any disclaimer which we have included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

©2012 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.